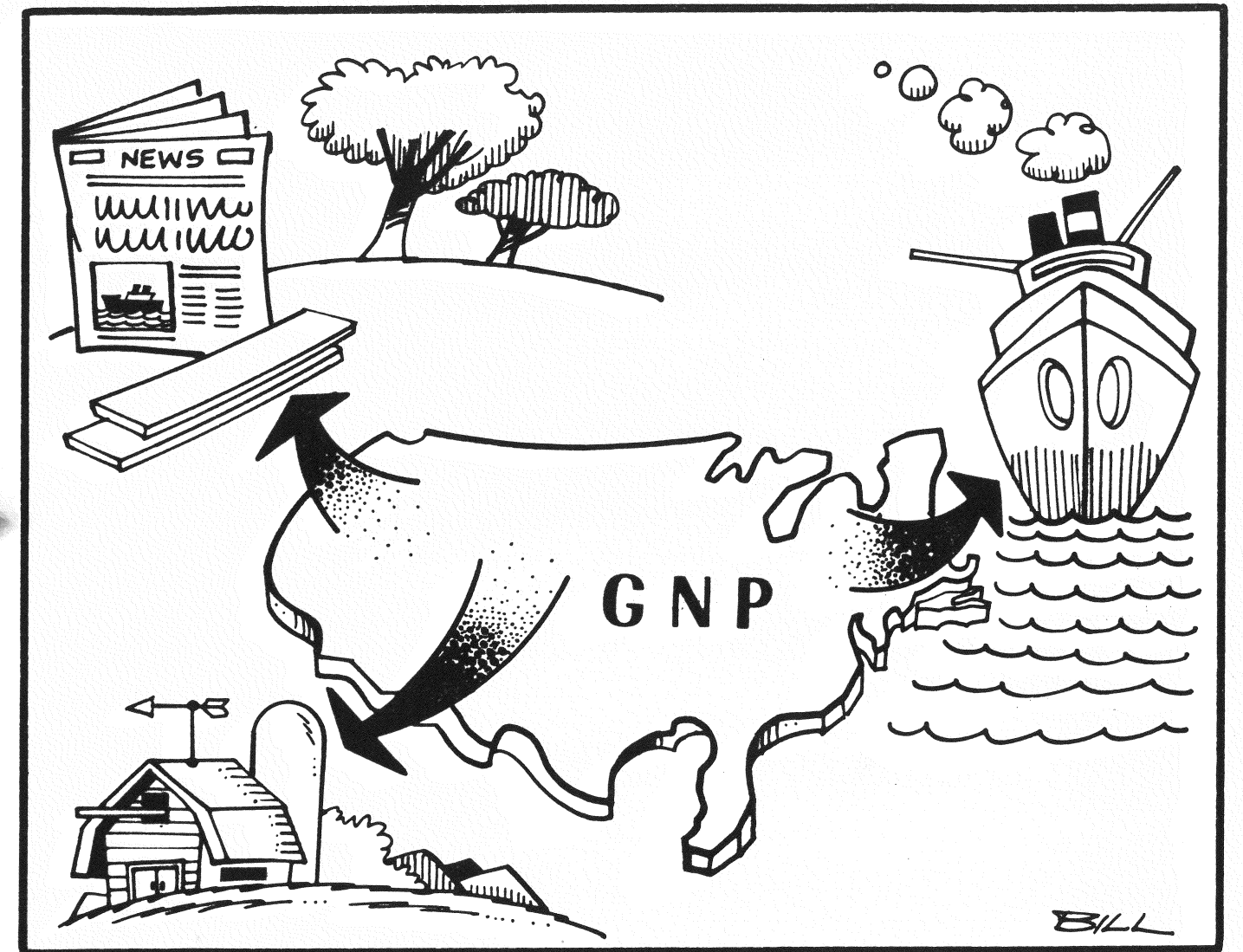


MEASURING ECONOMIC ACTIVITY



Mark D. Rothman, Ph.D.
Mary McAllister Salvia

INTRODUCTION

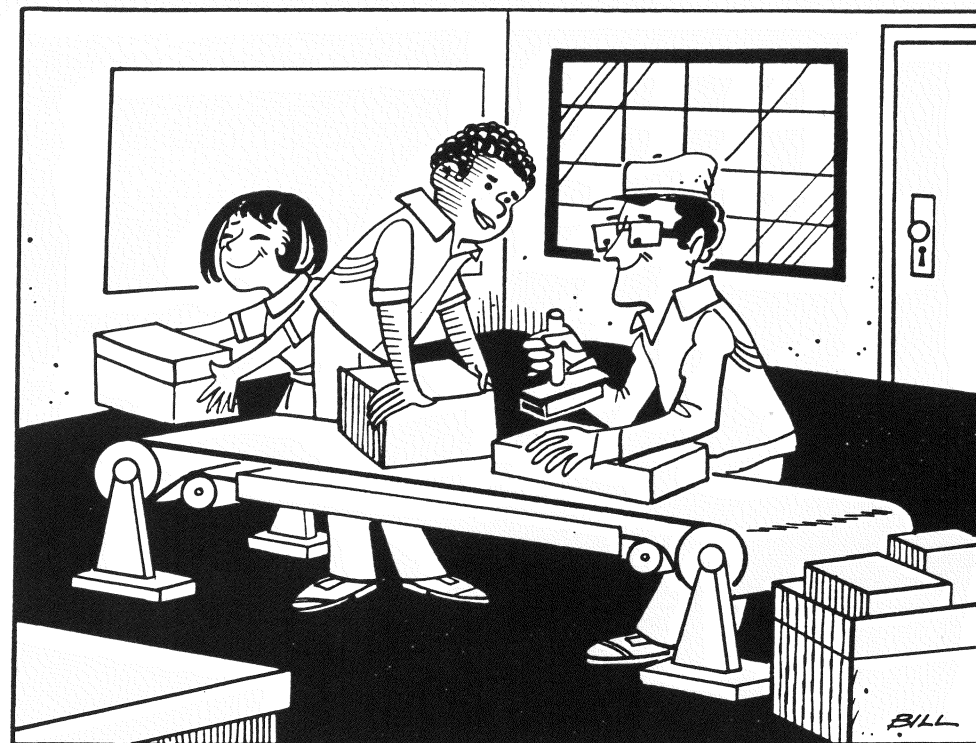
The purpose of this program is to help you to understand the meaning of the terms used to measure and evaluate our nation's economic activity. Economists, business people, and government leaders all measure and analyze different parts of the nation's economy. This helps them to make decisions about how best to achieve economic growth. Economic growth is important to the nation and the health and well-being of all citizens. A growing economy leads to a higher standard of living. When more people enjoy a higher standard of living, it means they can afford to buy the goods and services they need or want to make them happy.



But what does one measure to see if the nation's economy is growing? Decision-makers usually look at specific areas of economic activity which they feel can indicate whether or not economic growth is taking place. The government's main gauge of future economic activity is called the Index of Leading Economic Indicators. It is an index which uses the year 1967 as its base. That year is equal to 100 on the Index and changes are expressed as plus or minus figures compared to the base year. In January, 1982 the Index of Leading Economic Indicators stood at 135. In January, 1983 it stood at a level of 144. Hence, there was an increase in the Index of +9 for the period January, 1982 through January, 1983. Usually, the U.S. Department of Commerce reports these figures monthly. Information is provided on each of the components which make up the Index.

The Department of Commerce uses the following items as components in the Index of Leading Economic Indicators:

1. Average workweek of production workers in manufacturing
2. Average weekly claims for State Unemployment Insurance
3. New orders for consumer goods and materials, adjusted for inflation
4. Vendor performance (companies receiving slower deliveries from suppliers)
5. Index of net business formation (new businesses formed in a certain reporting period)
6. Contracts and orders for plant equipment adjusted for inflation
7. New building permits issues
8. Change in inventories on hand and on order, adjusted for inflation
9. Change in sensitive materials prices—goods whose market prices are sensitive to changes in supply and demand. Some examples are lead, copper, zinc, tin, wheat, and corn. These goods have little in the way of fixed costs.
10. Index of stock prices
11. Money supply (called M-2), adjusted for inflation. This is currency outside banks plus demand deposits adjusted (the adjustment subtracts interbank and government deposits) and time deposits at commercial banks (not including time certificates of deposit of more than \$100,000).
12. Change in credit (business and consumer borrowing)
13. Leading indicators index, percent change



(Further information on these indicators is available in the U.S. Government publication, "Business Cycle Developments.")

Whether the Index rises or falls can indicate future economic growth or economic slowdown. The Index of Leading Economic Indicators is one way of examining economic activity. There are other areas of economic activity that influence decision-makers.

Besides Leading Economic Indicators, there are Coincident Indicators and Lagging Indicators which are also observed by economists. Coincident Indicators include Railroad Car Loadings, Wholesale Prices and Non-Farm Employment. Lagging Indicators include Retail Sales, Consumer Installment Debt, and Inventories (Manufacturer).

Among other factors which can show trends in economic activity are: the rate of inflation, the unemployment rate, the Dow Jones Industrials Average, and the Gross National Product. Changes in the reported figures for each of these items mentioned, plus other factors, can help one to determine whether or not the economy is growing. In this program, you will be able to research and collect data on each of these factors and then input the data into the computer. The computer will then graphically show the results of your research for comparison and analysis.

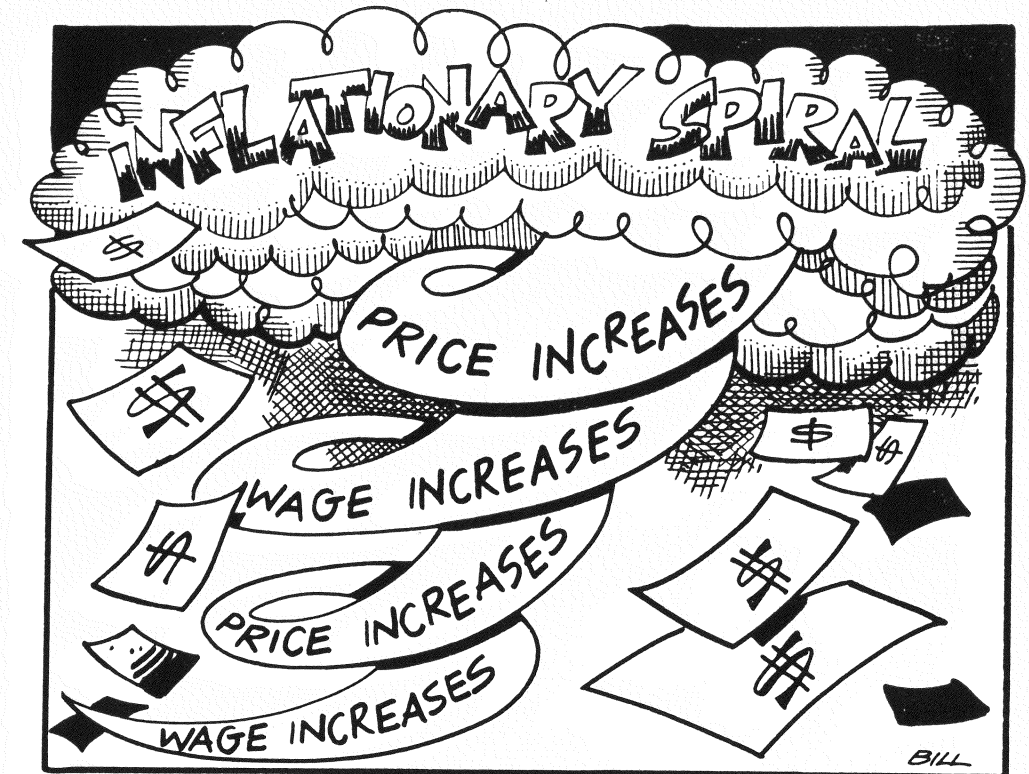
INFLATION

One trend which is examined to understand economic activity is the rate of inflation. Inflation is a term used to describe a general rise in the level of prices. To measure the rate of inflation, the Bureau of Labor Statistics looks at the prices in a variety of products and services, called a market basket. Although the government examines wholesale as well as retail prices in figuring the rate of inflation, these figures are reported separately. The Wholesale Price Index shows changes in prices paid at the wholesale level. The Consumer Price Index, or CPI, is used to measure changes in the retail price level. Changes in the C.P.I. are expressed as a percentage of a BASE YEAR, 1967. This percentage indicates the amount of change that has taken place since the previous reporting period. Only twice in the 20th century has the C.P.I. gone down, right after World War I and during the Great Depression of the 1930's.



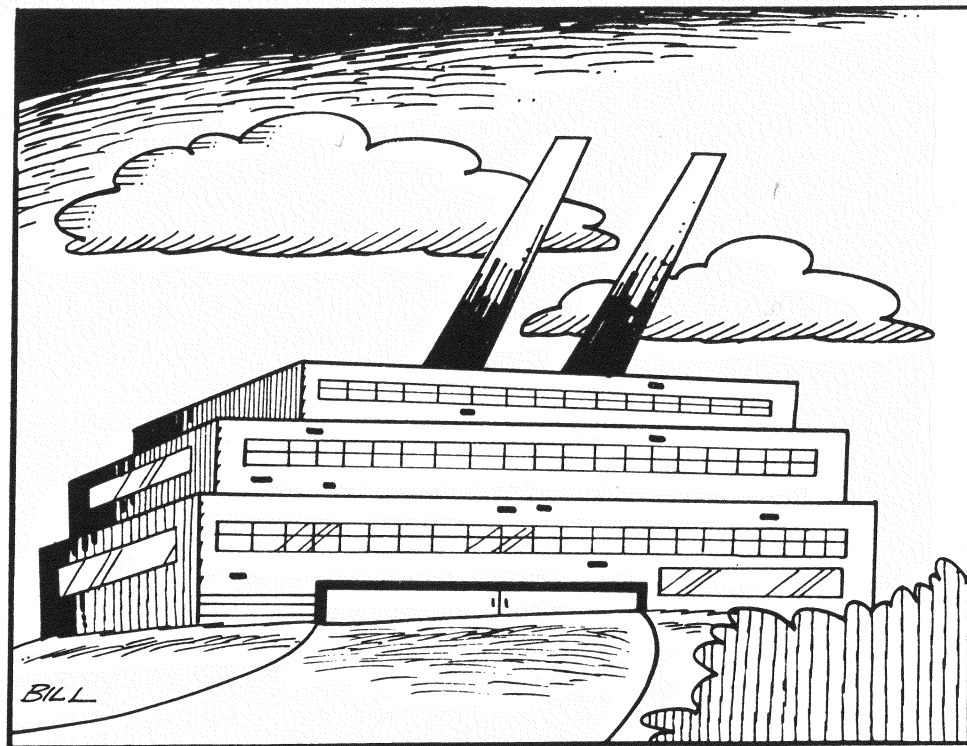
What does inflation tell us about the economy? Inflation involves more than rising prices. Especially at high rates, it affects other areas of the nation's economy. Suppose that a record album costs \$10.00 today. After five years you might have to pay \$12.40 for the same record album. What accounts for the increase in price? Inflation, at the rate of 5% per year for five years, would increase the cost of a record album more than 25%. One reason the price increased so much is the COMPOUNDING effect of inflation. Compounding means that in the first year (in our record album example) the inflation rate is 5% of \$10.00. But the second year, the inflation rate is 5% of \$10.50. The third year the rate of inflation is 5% of \$11.00 and so on. This can have a dramatic effect on consumer prices over a period of time. When prices rise this much, it can affect decisions people make regarding how to use their money.

Inflation may mean that people will borrow money rather than lend it. This is because they borrow money at today's prices, but pay their loan back with cheaper dollars created by the effects of inflation. Inflation can cause consumers and businesses to change their spending habits. People and businesses will tend to spend their money before inflation lessens its value. Inflation can cause people on a fixed income to lose buying power (their income stays the same, but prices keep going up). A low rate of inflation can mean a healthy economy that is growing. But a high rate of inflation can mean an economy that is not growing because buying power is down, and people and businesses are being hurt by the effects of inflation.



UNEMPLOYMENT RATE

The Unemployment Rate is a measure of economic activity. This indicates the number of people who cannot find jobs. It is expressed as the percent of the entire workforce that cannot find jobs. If, for example, there were 1,000,000 people in the workforce and 50,000 could not find jobs, this would represent an unemployment rate of 5%. This rate is usually reported by the U.S. Bureau of Labor Statistics on a monthly basis. The Bureau tries to locate unemployed persons who have actively tried to find jobs. It does this by conducting a survey in about 55,000 households.



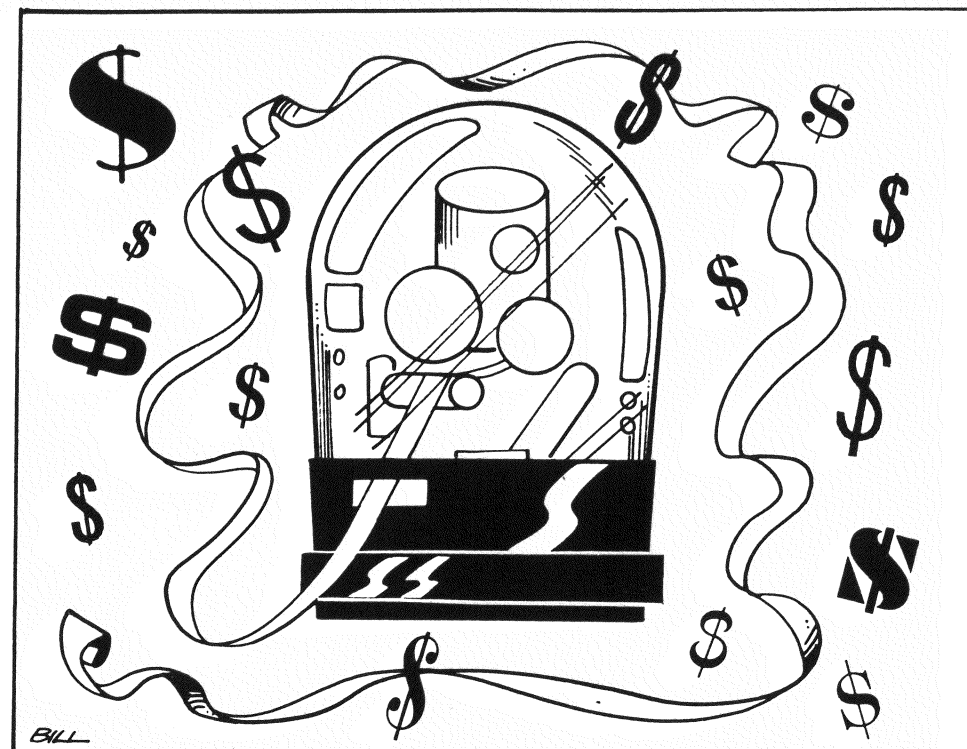
During periods of economic decline (recessions) the unemployment rate tends to increase. During periods of economic growth, the unemployment rate tends to decrease. One problem with using the unemployment rate is that it does not count people who have looked for work for a very long period of time and have become discouraged and have stopped looking. A person who does not have a job is not classified as unemployed if he or she did not make an effort to find a job within the last four weeks. Also, persons who hold part-time jobs are counted the same as those who hold full-time jobs.

Economists have identified three major types of unemployment: FRICTIONAL, STRUCTURAL, AND CYCLICAL. FRICTIONAL unemployment occurs when workers are "between jobs." At any given time, the economy contains some workers who have left one job on their way to another. If these workers do not hold a job for at least one week, they are counted in the unemployment rate. STRUCTURAL unemployment occurs when people's tastes or habits change and certain products or services are no longer needed. This happened in agriculture when machines took the place of human workers. Today, this is happening to some degree in the automobile industry, the steel industry, and other areas where technology has replaced human labor. It also occurs when one type of industry can no longer compete or sell its products. CYCLICAL unemployment is directly related to changes in the business cycle. When there is a recession, people don't buy as much as they usually do. Fewer products are needed and the number of workers required also declines. When the economy improves, cyclical unemployment tends to decline. People begin to buy more products, creating the need for more workers to provide these goods and services. There are two types of unemployment, SEASONAL and TECHNOLOGICAL. SEASONAL unemployment occurs when jobs are lost due to a change in the weather. This is especially true in the construction industry. Seasonal unemployment affects many workers hired for the holidays. TECHNOLOGICAL unemployment takes place when some type of new technology (machines, manufacturing process, or equipment) reduces the need for human labor.



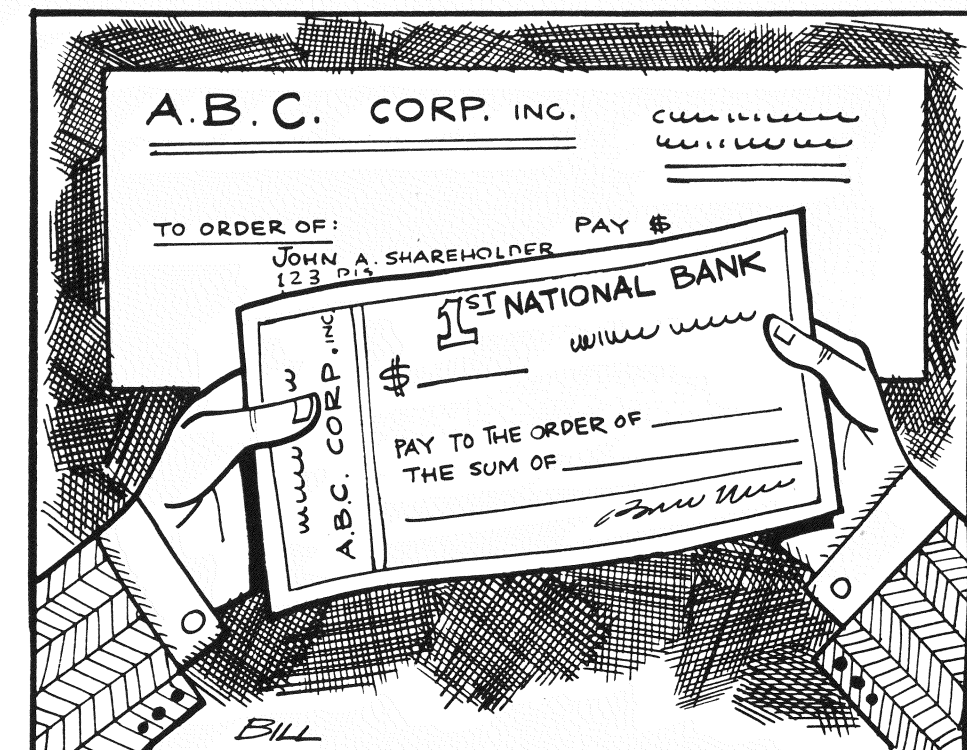
DOW JONES INDUSTRIALS AVERAGE

The price of stocks on the New York Stock Exchange is often used as a measure of economic activity. Stocks are certificates of ownership in a corporation that people buy and sell on a STOCK EXCHANGE. The largest such exchange in the United States is in New York, The New York Stock Exchange. The New York Stock Exchange trades stocks from all major American corporations. Investors, people who buy and sell stocks, are concerned about the prices of stocks they have bought or wish to sell. They are also concerned about the general level of prices of all stocks listed on the New York Stock Exchange because changes in the general level of stock prices could affect the price of their stocks. Stock price levels could also serve to possibly indicate future trends in the performance of the economy. Greater confidence in the stock market promotes investment.



One of the most often consulted measures of stock market performance is the DOW JONES INDUSTRIALS AVERAGE. The Dow Jones is not really an average, but the sum of the daily closing prices of 30 selected stocks. The stocks are chosen because they are representative of the performance of all stocks on the exchange. If the Dow Jones Industrials Average rises, it can mean that people are generally confident in the future of the economy and are purchasing stocks for investment. This creates demand and may cause the price of stocks to go up. If the Dow Jones Industrials Average falls, it can mean that people are not necessarily confident about the future of the economy. They are selling their stocks and doing other things with their money. This causes demand to fall and stock prices may go down.

In general, business activity, national income levels, and the earnings of corporations determine the level of stock prices. The stock market and the Dow Jones Industrials Average can occasionally anticipate changes in national economic activity. People buy stocks to try and make a profit on their investment. This can happen in several ways. One way is when the price of the stock increases because of greater demand for the company's stock on the stock exchange. For example, if you buy a company's stock at \$25 per share and, because of increased demand, you can sell it to someone for \$30 per share, you will make a profit on your investment. Another way a person can make a profit on his or her investment is when the value of the company in which he or she owns stock increases. This is called appreciation. If the actual value of a share of stock, in terms of the ownership in the company it represents, is \$5 and the company increases its worth so that the share of stock is now worth \$7, the value of the investment is increased and a profit is made. Profit is also paid to the investor in the form of a DIVIDEND on each share of stock owned. The dividend is a company's profit share with each shareholder for that period.

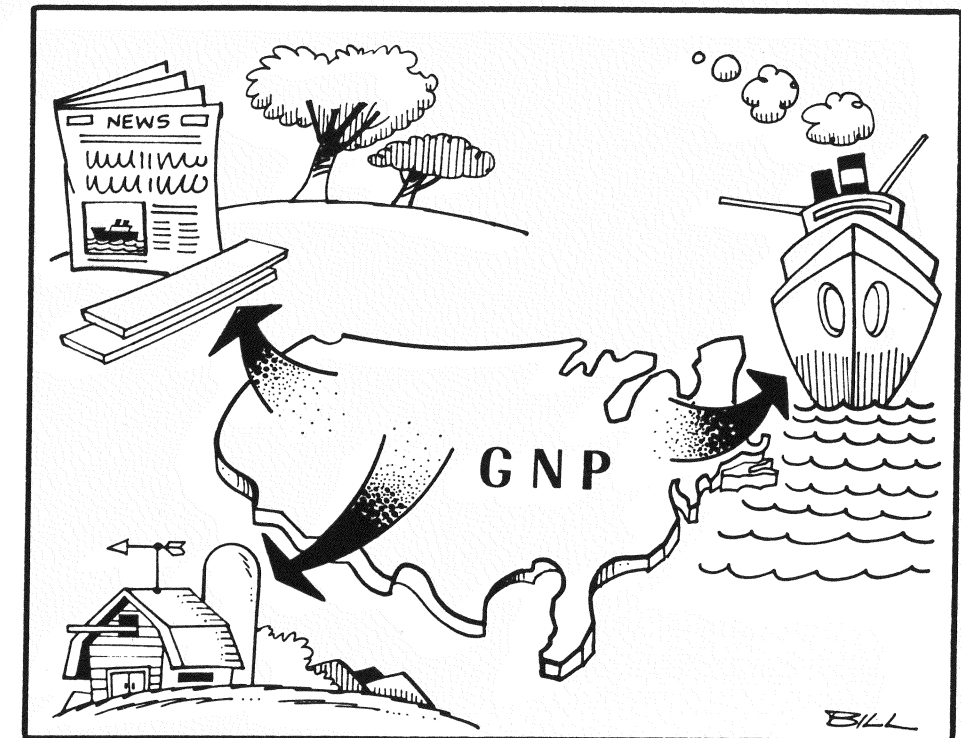


GROSS NATIONAL PRODUCT

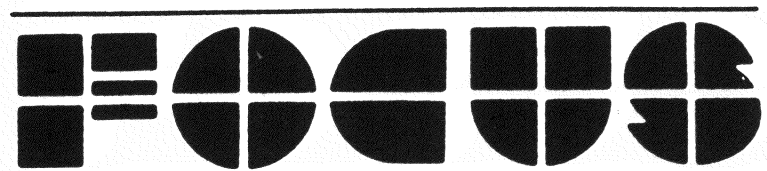
The most general method of the economy's growth or decline is the Gross National Product. The Gross National Product, or GNP, is the total dollar value of all the goods and services produced within the country in a one-year period. The GNP is one of the most important and comprehensive statistics kept on the economy. The Department of Commerce is the government agency responsible for computing the GNP. Massive amounts of data flow into the department for evaluation and publication. The Gross National Product figures are usually reported quarterly (every three months) because so much data has to be collected and analyzed. In some cases, the figures are revised months after the quarter has ended. The Gross National Product does not take into account the so-called "underground" economy. The underground economy includes such illegal activities as drugs, gambling, smuggling, counterfeiting, and other unreported activities which are not disclosed for obvious reasons. It also includes otherwise legitimate economic activities which are unreported and on which no taxes are paid.

Inflation can distort growth in the GNP, giving the appearance of increased output where no increase really occurs. For example, if there is a 5% rate of inflation, and production remains at a constant level, the GNP will show a 5% increase with no real growth in production. When the GNP is not adjusted for inflation, it is called the CURRENT GNP. When inflation's effects are taken into account, it is called the REAL GNP. When the government reports GNP figures each quarter, it usually provides both the current and the real growth statistics. These statistics are usually expressed as a percent change from the previous quarter. At the end of the year, the Department of Commerce will report total change in GNP from the previous year.

While GNP is the most comprehensive of all measures of economic activity, the slowness in reporting the figures, the difference between real and current GNP, and the periodic revisions in statistics from previous quarters produce some difficulties in using this measure of economic activity.







MEDIA MEDIA MEDIA MEDIA MEDIA MEDIA MEDIA MEDIA MEDIA

FOCUS MEDIA, INC. 839 STEWART AVENUE GARDEN CITY, NY 11530